

## Message Text

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PAGE 01 COPENH 01304 100926Z

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ACTION EUR-25

INFO OCT-01 ISO-00 AID-20 CIAE-00 COME-00 EB-11 FRB-02

INR-10 NSAE-00 RSC-01 TRSE-00 XMB-07 OPIC-12 SP-03

CIEP-02 LAB-06 SIL-01 OMB-01 NSC-07 SS-20 STR-08

CEA-02 AGR-20 DRC-01 /160 W  
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R 091702Z MAY 74

FM AMEMBASSY COPENHAGEN

TO SECSTATE WASHDC 0000

INFO AMEMBASSY BONN

AMEMBASSY BRUSSELS

USMISSION EC BRUSSELS

AMEMBASSY DUBLIN

AMEMBASSY THE HAGUE

AMEMBASSY HELSINKI

AMEMBASSY LONDON

AMEMBASSY LUXEMBOURG

AMEMBASSY OSLO

AMEMBASSY PARIS

USMISSION OECD PARIS

AMEMBASSY ROME

AMEMBASSY STOCKHOLM

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E.O. 11652: N/A

TAGS: EFIN, ETRD, DA, EEC

SUBJECT: DANISH CONSUMER RESTRAINT PROGRAM THREATENS  
GOVERNMENT CRISIS

BEGIN SUMMARY. ON MAY 8, DANISH GOVERNMENT PRE-  
SENTED TO PARLIAMENT EXTENSIVE EXCISE TAX PRO-  
POSAL INTENDED TO CURTAIL CONSUMER SPENDING  
THIS YEAR BY 3 PERCENT AND MITIGATE BALANCE  
OF PAYMENTS DEFICIT. PROPOSAL HITS TOBACCO,  
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LIQUOR, AUTOMOBILES AND CONSUMER DURABLES AND

IS TO GO INTO EFFECT RETROACTIVELY TO MAY 8. GOVERNMENT ALSO PROPOSED LONGER RANGE TAX REFORM PROGRAM INCLUDING CONTROVERSIAL BUDGETARY CUTS PERMITTING REDUCTION IN INCOME TAX BUT POSSIBLE RISE IN VAT. GOVERNMENT HAS IMPLIED ITS WILLINGNESS TO RESIGN AND CALL NEW ELECTIONS IF EXCISE TAX MEASURES NOT PASSED BY MIDNIGHT MAY 9. SOCIAL DEMOCRATS, WHO WERE NOT CONSULTED ON GOVT'S PROPOSAL IN ADVANCE, ARE ATTEMPTING TO EXTRACT COMPENSATORY COMMITMENTS FROM GOVT REGARDING PROPOSED THIRD PHASE BUDGETARY CUTS AND TAX REFORM. POSSIBILITY EXISTS THAT GOVT MAY HAVE OVER-PLAYED ITS HAND AND ITS THREAT TO RESIGN MIGHT BE CALLED THIS WEEKEND. END SUMMARY.

1. IMMEDIATE STOP-GAP EXCISE TAX MEASURES ARE INTENDED WITH FEW EXCEPTIONS, TO BE IN FORCE UNTIL END OF YEAR IN ORDER TO HALT UPWARD PRICE SPIRAL AND RAPIDLY DETERIORATING BALANCE OF PAYMENTS. CURRENT OFFICIAL ESTIMATE OF 1974 BALANCE OF PAYMENTS DEFICIT (CURRENT ACCOUNT) EXCEED ONE BILLION DOLLARS, MORE THAN DOUBLE THE 1973 FIGURE. GOVERNMENT ANTICIPATES THAT ITS PROPOSED MEASURES WOULD REDUCE CONSUMER SPENDING 3 PERCENT (ON ANNUAL BASIS) AND DIRECTLY REDUCE IMPORTS.

2. EXCISE TAX INCREASES, INTER ALIA, WOULD AFFECT SUCH TRADITIONAL ITEMS AS TOBACCO, LIQUOR, WINE AND BEER IN WHICH DEMAND IS LIKELY TO BE SUFFICIENTLY INELASTIC NOT TO AFFECT CONSUMPTION SIGNIFICANTLY. HOWEVER, HIGHER PRICE OF THESE ITEMS SHOULD HAVE INDIRECT EFFECT OF REDUCING OTHER SPENDING. MOST DRASTIC TAX INCREASE IS ON AUTOMOBILES ON WHICH 50 PERCENT INCREASE IN REGISTRATION TAX IS PROPOSED. SINCE REGISTRATION TAX IS ALREADY ABOUT 100 PERCENT OF IMPORT VALUE, NOW TAX WOULD INCREASE PURCHASE PRICE OF NEW AUTOS BY AN AVERAGE OF 25 PERCENT AND IS EXPECTED TO STALL CAR SALES FOR REMAINDER OF YEAR. ANNUAL CAR LICENSE TAX IS INCREASED BY 66.67 PERCENT BUT THIS WOULD REPRESENT MORE MODEST TAX LIMITED OFFICIAL USE

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RISE OF FROM 45 TO 100 DOLLARS PER YEAR, DEPENDING ON CAR WEIGHT.

3. SIGNIFICANT MARKET EFFECTS ARE ALSO EXPECTED FROM INCREASE IN TAX ON TELEVISION EQUIPMENT (FROM PRESENT 20 PERCENT TO 50 PERCENT OF WHOLESALE VALUE) AND INTRODUCTION OF 33 PERCENT TAX ON PREVIOUSLY UNTAXED CONSUMER DURABLES SUCH

AS VACCUM CLEANERS, WASHINGTON MACHINES, REFRIGERATORS, OTHER MAJOR AND MINOR ELECTRICAL HOUSEHOLD APPLIANCES. PLEASURE BOATS WOULD ALSO BE AFFECTED BY A NEW 25 PERCENT TAX ON PURCHASE PRICE. IN ALL INSTANCES, EXISTING 15 PERCENT VAT WOULD BE ADDED TO TAXED VALUE OF GOODS.

4. POLITICALLY, MOST CONTROVERSIAL ITEMS AMONG NEW STOP-GAP TAX PROPOSALS IS 0.85 CENT PER KWH TAX ON ELECTRIC POWER CONSUMPTION. ADDED TO RECENT AND PENDING INCREASES RELATED TO RISING OIL AND COAL PRICES, NEW TAX WOULD ALMOST DOUBLE POWER COSTS FROM THOSE PREVAILING LAST FALL. LABOR QUICKLY TOOK EXCEPTION TO ELECTRICITY TAX AND, IN MAY 9 MORNING DEBATE IN PARLIAMENT, SOCIAL DEMOCRATS INDICATED THEIR POSITION ON BILL WOULD DEPEND ON GOVERNMENT FURTHER DEFINING BUDGETARY SAVINGS THEY INTEND TO PROPOSE (SEE BELOW). SINCE GOVERNMENT HAS ONLY 22 SEATS IN 179 SEAT PARLIAMENT, IT REQUIRES BROAD SUPPORT FROM OTHER PARTIES, AMONG WHICH SOCIAL DEMOCRATS ARE KEY.

5. SECOND PHASE OF GOVERNMENT'S FINANCIAL PROGRAM PRESENTED MAY 8 IS PROPOSAL FOR SIGNIFICANT REDUCTION IN STATE INCOME TAX BEGINNING IN CY 1975. PROPOSAL WOULD REDUCE INCOME TAXES BY AN AVERAGE OF ONE-THIRD, WITH PARTICULAR BENEFIT TO MIDDLE INCOME CLASS. (INCLUDING LOCAL INCOME TAXES, GOVERNMENT MEASURE WOULD DECREASE TOTAL DIRECT TAXES BY ABOUT 17 PERCENT ON AVERAGE.) MEASURE IS DESIGNED TO ENCOURAGE PRIVATE INITIATIVE AND WILL TO WORK.

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6. THIRD PHASE IS VAGUELY-PHRASED PROPOSAL, NOT YET PUT INTO LEGISLATIVE FORM, OF BUDGETARY SAVINGS TO COMPENSATE FOR ABOUT HALF OF INCOME TAX LOSSES IF SECOND PHASE ADOPTED. GOVERNMENT ANTICIPATES THAT COMPENSATION FOR OTHER HALF OF LOSS WOULD PROBABLY COME FROM INCREASE OF VAT FROM PRESENT 15 PERCENT TO 20 PERCENT. SINCE VARIOUS SUGGESTIONS HAVE ALREADY BEEN MADE TO FOCUS BUDGETARY CUTS ON SOCIAL BENEFITS (E.G., EDUCATION AND MEDICAL SERVICES), SOCIAL DEMOCRATS ARE ATTEMPTING TO OBTAIN GOVERNMENT COMMITMENT NOT TO DISTURB EXCESSIVELY THEIR SACRED COWS BEFORE AGREEING TO STOP GAP MEASURES.

7. REPORTS RECEIVED IN COPENHAGEN INDICATE THAT SOME EC MEMBER STATES, THE GERMANS IN PARTICULAR, CRITICIZED THE DANISH MEASURE AS VIOLATION OF SPIRIT IF NOT LETTER OF TREATY OF ROME. FRG ECONOMICS MINISTER FRIEDERICH'S REPORTEDLY COMPLAINED ABOUT DANISH FAILURE TO GIVE ANY INDICATION OF INTENDED MEASURE DURING TUESDAY'S COUNCIL MEETING ON ITALIAN IMPORT MEASURES.

8. HARTLING GOVT HAS BEEN STRONGLY CRITICIZED AS HOSTAGE OF LARGER SOCIAL DEMOCRATIC PARTY, ON WHOM IT DEPENDS FOR PARLIAMENTARY MAJORITY. ITS ROUGH-SHOD TACTICS IN REFUSING ADVANCE CONSULTATIONS AND DEMANDING ALMOST IMMEDIATE ACCEPTANCE OF ITS PROPOSAL IS DESIGNED TO REMOVE STIGMA OF OVERDEPENDENCE ON SDP. SPONTANEOUS STRIKES AT VARIOUS SHIPYARDS AND FACTORIES, INCLUDING GENERAL MOTORS ASSEMBLY PLANT IN COPENHAGEN, HOWEVER, WILL FORCE SOCIAL DEMOCRATS TO PROVIDE SHOW FOR THE GALLERY, AT LEAST, BEFORE GOING ALONG WITH PROPOSAL OR PERMITTING ITS PASSAGE BY ABSTAINING. AT THIS POINT THE POSSIBILITY THAT GOVT HAS OVERPLAYED ITS HAND CANNOT BE EXCLUDED.  
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## Message Attributes

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